

Message Text

CONFIDENTIAL

PAGE 01 MADRID 07917 01 OF 02 220238Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 PA-01 PRS-01 /083 W
-----085153 220251Z /66

R 211558Z OCT 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 2167
INFO AMEMBASSY PARIS
AMEMBASSY BONN

C O N F I D E N T I A L SECTION 01 OF 02 MADRID 07917

USOECD

E.O. 11652: GDS
TAGS: EFIN, SP
SUBJECT: MAJOR EURODOLLAR LOAN TO SPAIN

REF: MADRID 5707, MADRID 3971, MADRID 3543

1. SUMMARY: THIS YEAR'S LARGEST LOAN TO SPAIN IS ENTERING THE EUROMARKET. THE \$300 MILLION LOAN IS LED BY DEUTSCHE BANK AND WILL CARRY INTEREST OF ONLY 7/8 OF A PERCENT ABOVE LIBOR OVER A SEVEN-YEAR TERM. MANY US BANKS ARE INTERESTED IN ADDITIONAL LENDING TO THE SPANISH STATE, BUT FURTHER BIG LOANS ARE NOT EXPECTED UNTIL NEXT YEAR. SPAIN'S FOREIGN FINANCING SITUATION IS IN HAND FOR THE NEAR FUTURE. END SUMMARY.

1. THIS YEAR'S JUMBO LOAN TO THE KINGDOM OF SPAIN IS NOW IN THE MARKET, AND IS EXPECTED TO BE SUCCESSFULLY SYNDICATED. AT \$300 MILLION, IT IS THE SAME SIZE AS THE LOAN WHICH MANUFACTURERS HANOVER TRUST FAILED TO SYNDICATE IN APRIL AND MAY OF THIS YEAR (SEE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 07917 01 OF 02 220238Z

MADRID 3543 AND PREVIOUS). RUMORS ARE THAT THE LOAN COULD BE EXPANDED TO \$400 MILLION IF THE RECEPTION IS STRONG. THE NEW EURODOLLAR SYNDICATION IS LED BY DEUTSCHE BANK AND WILL BE MANAGED BY JAPANESE AND OTHER EUROPEAN BANKS AS WELL AS MANUFACTURERS HANOVER TRUST. THE LOAN FEATURES ATTRACTIVE BORROWING TERMS FOR SPAIN: INTEREST AT 7/8 OF ONE PERCENT ABOVE SIX-

MONTH LIBOR (PLUS A MANAGEMENT FEE OF 1/2 PERCENT, A 3/4 PERCENT COMMITMENT FEE, AND UNKNOWN PARTICIPATION FEES) OVER A SEVEN-YEAR TERM WITH A TWO-YEAR GRACE PERIOD. THE LOAN DOES NOT CARRY ANY RESTRICTIONS ON FUTURE BORROWING OR ECONOMIC POLICYMAKING BY THE SPANISH GOVERNMENT.

3. THE LOW INTEREST RATE IS SAID HERE TO RESULT FROM EXCESS BANK LIQUIDITY IN GERMANY AND ELSEWHERE. TWO BANKS HAVE ALSO INFORMED US THAT CAPITAL LEVERAGING IS GREATER IN THE CASE OF GERMAN AND JAPANESE BANKS THAN WITH US BANKS, AND THAT AMERICAN BANKS THEREFORE NEED WIDER EARNINGS MARGINS. FURTHER, THERE IS A WIDE-SPREAD BELIEF IN THE MADRID FINANCIAL COMMUNITY THAT THE FRG IS ENCOURAGING LOANS TO SPAIN. IN ANY CASE A NUMBER OF US BANKS HAVE ALREADY TOLD US THAT THE LOW INTEREST RATE WILL KEEP THEM FROM PARTICIPATING IN THIS LOAN.

4. TOTAL SPANISH PUBLIC AND PRIVATE FOREIGN BORROWING IS HIGHER THIS YEAR, THE 1977 BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT COULD WELL BE \$600 MILLION LOWER THAN LAST YEAR'S, AND FOREIGN RESERVES HAVE RISEN TO A VERY COMFORTABLE LEVEL (\$5,733 MILLION AS OF THE END OF SEPTEMBER). BECAUSE OF THIS, ECONOMIC POLICYMAKERS ARE AT PRESENT RELATIVELY DISINTERESTED IN

CONFIDENTIAL

PAGE 03 MADRID 07917 01 OF 02 220238Z

EXPANDING KINGDOM OF SPAIN BORROWING ABROAD. THE LOW INTEREST RATE OF THE DEUTSCHE BANK SYNDICATION OFFER MAY EVEN HAVE PERSUADED THE SPANISH GOVERNMENT TO GO TO THE MARKET SOONER THAN NECESSARY. THE INTEREST RATE AND THE REDUCED NEED FOR GOVERNMENT BORROWING MAY ALSO EXPLAIN WHY THIS NEW LOAN IS FAR SMALLER THAN THE AUGUST 1976 BILLION-DOLLAR SPANISH EUROLOAN.

5. THERE CONTINUES TO BE PRESS SPECULATION HERE THAT A MAJOR US BANK-LED LOAN, SOMETIMES PUT AS HIGH AS ONE BILLION DOLLARS, IS ALSO NOW BEING NEGOTIATED. BOTH SPANISH OFFICIALS AND US BANKERS HAVE TOLD US THESE REPORTS ARE NOT CORRECT.

6. THE INCREASED SPANISH BORROWING ABROAD HAS BEEN CHARACTERIZED BY THE TAPPING OF NEW MONEY MARKETS. ACCORDING TO MORGAN GUARANTEE TRUST COMPANY, SPANISH PUBLIC AND PRIVATE BORROWINGS ON THE EURODOLLAR MARKET WERE ACTUALLY DOWN 21 PERCENT IN THE FIRST NINE MONTHS, COMPARED TO THE SAME PERIOD IN 1976, WHILE ALL OTHER MAJOR BORROWING COUNTRIES INCREASED THEIR EUROBORROWING. WEST GERMAN LENDING STANDS OUT, AND MOST OF IT HAS NOT

BEEN FROM EUROMARKETS. GERMAN OR GERMAN-LED LOANS PUT TOGETHER THIS YEAR INCLUDE THE \$300 MILLION EURODOLLAR LOAN, A DM 500 MILLION LOAN AND A DM 200 MILLION BOND ISSUE, ALL TO THE KINGDOM OF SPAIN, AND LOANS FOR \$130 MILLION AND DM 100 MILLION TO THE NATIONAL RAILROAD (RENFE). SPANISH OFFICIALS OCCASIONALLY VOICE AN INTENTION TO INCREASE FUTURE BORROWING IN THE US AND JAPANESE NATIONAL MARKETS, ALTHOUGH THEY ARE AWARE THERE ARE OBSTACLES.

7. COMMENT: THE EMBASSY, AND ITS BANKING CONTACTS, BELIEVE THAT NORMAL PUBLIC AND PRIVATE BORROWING ABROAD (AND AN APPROPRIATE DRAWDOWN OF THE SIZABLE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 07917 02 OF 02 220238Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 PA-01 PRS-01 /083 W
-----085171 220252Z /66

R 211558Z OCT 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC 2168
INFO AMEMBASSY PARIS
AMEMBASSY BONN

C O N F I D E N T I A L SECTION 02 OF 02 MADRID 07917

FOREIGN RESERVES) CAN FINANCE THE SPANISH BALANCE-OF-PAYMENTS DEFICIT FOR THE NEXT SIX MONTHS, AND WELL BEYOND IF THE GOVERNMENT SUCCEEDS IN IMPLEMENTING ITS FULL ECONOMIC PROGRAM. WE NOTE, TOO, THAT SPANISH OFFICIALS HAVE ALREADY INDICATED THEIR INTEREST IN DISCUSSING IMF SUPPORT WITHIN THIS TIME FRAME. MUCH OF THE ABOVE SEEMS MORE FAVORABLE THAN EARLIER THIS YEAR, AND WE CONCLUDE THAT SPANISH ATTENTION NOW CORRECTLY CENTERS ON DOMESTIC ECONOMIC POLICIES TO COMBAT INFLATION RATHER THAN ON THE STILL-DIFFICULT BALANCE-OF-PAYMENTS SITUATION. EATON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EURODOLLAR, LOANS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 21-Oct-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MADRID07917
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770388-0905
Format: TEL
From: MADRID USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771034/aaaabcqt.tel
Line Count: 166
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 68bc9c29-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 MADRID 5707, 77 MADRID 3971, 77 MADRID 3543
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 832854
Secure: OPEN
Status: NATIVE
Subject: MAJOR EURODOLLAR LOAN TO SPAIN
TAGS: EFIN, SP
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/68bc9c29-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009